

ULUNDI MUNICIPALITY

BUDGET ADJUSTMENT FOR THE FINANCIAL YEAR 2013/2014

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1. **Mayor's report**

TABLING OF BUDGET ADJUSTMENT FOR 2013/2014

**BY HER WORSHIP THE MAYOR OF ULUNDI, CLLR N.J. MANANA. AT THE COUNCIL CHAMBER OF THE ULUNDI MUNICIPAL
COUNCIL ON 25 FEBRUARY 2014**

MAYORAL REPORT ON ADJUSTMENT BUDGET

Honourable Speaker, Chief Whip, Deputy Mayor, Honourable Councillors, Representatives from Provincial Treasury, Municipal Manager, Municipal Executive Directors, Senior Managers and Officials I greet you all.

I extend warm greetings on this day of 25 February 2014. Honourable Speaker, I am standing on this platform again in compliance with Section 28 of the Municipal Finance Management Act the excerpts of which are as follows:

Municipal adjustments budgets

1. A municipality may revise an approved annual budget through an adjustments budget.
2. An adjustment budget–
 - a. Must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
 - b. May appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
 - c. May, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
 - d. May authorise the utilisation of projected savings in one vote towards spending under another vote;

- e. May authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;
- f. May correct any errors in the annual budget; and
- g. May provide for any other expenditure within a prescribed framework.

3. An adjustments budget must be in a prescribed form.

Allow me again to remind you that on the 24th of January 2014 I tabled a mid-year assessment report on current budget as well as Performance as a whole in terms of Section 72 of the Municipal Finance Management Act. In that Council sitting one of the resolutions taken was that an Accounting Officer of this Municipality be mandated to prepare an Adjustment Budget since the movements within the current Budget for 2013/2014 brought that necessity.

Honourable Speaker and the House, before I go into details of the matter I would like to flag certain issues which I have been repeatedly pronouncing ever since I took over as the political Head of this Organisation. Let me remind all of you, again, that while this Municipality is required to honour its obligations as encapsulated in the Constitution of this country, which is service delivery, it is faced with a huge challenge of cash flow. This gap was mainly caused by ever increasing Eskom tariffs coupled with seasonal charges which subsequently resulted to Eskom invoices being more than double. The other disparity that was experienced was brought by differences in percentage increases as prescribed by NERSA and historically this can be demonstrated as follows:

Financial year	Eskom	Ulundi Municipality	Difference
2010/2011	34%	21.52%	12.48%
2011/2012	23%	19%	4%
2012/2013	16%	11.03%	4.97%
2013/2014	8%	7%	1%

Besides the abovementioned challenge Honourable Speaker and Councillors, there had been multiple problems related to under-collection on Electricity Revenue because of electricity theft and tempering. A combination of all these challenges made this Municipality to land into an undesirable chamber where Electricity Service, which must yield profit since it is a trading service, was finally funded by Equitable Share unconditional grant and that had an impact on Budgets of the following years. For example for the past two years this Ulundi Municipality had been carrying Eskom liability amounting to almost R10m, to the following financial year and that debt had to be settled by part of Equitable Share allocation for that particular year meaning that a deficit of R10m was already incurred right in the beginning of the financial year. This subsequently triggered an unauthorised expenditure which is an Audit query.

Honourable Speaker and Councillors I deliberately outlined this background so that all of us in this chamber have a clear understanding of where we are coming from. Broadly speaking, Honourable Speaker, I can say it with confidence that Ulundi Municipality is in a recovery stage. In September 2012 In September 2012 a resolution was taken by this Council to establish Cash Management Committee after adoption and approval of Cash Management Policy. This Committee, which is chaired by the Municipal Manager, was mandated by Council to scrutinise line by line any expenditure item before actual cash is withdrawn from the Council's coffers.

Honourable Speaker and Colleagues, I wish to emphasise that, that initiative started bearing fruits as early as November 2012 where a considerable drop in expenditure on Subsistence and Transport (S&T) and overtime was realised.

Honourable Speaker, the abovementioned step forward took us to another positive direction where on 30 May 2013 this Council resolved to introduce a Business Unit concept in Protection Services and Electrical Services. That resolution was taken together with the approval of the Final Budget for 2013/2014 which is the current year. From July 2013 this Municipality has been able to honour its obligations in time including arrangements made with Eskom in order to service the debt. Since we are now half way with our current budget allow me to briefly outline the status quo in compliance with Section 72(1) (a) of the Municipal Finance Management Act.

As outlined in table B4 which is Financial Performance in Revenue and Expenditure I would like to refer to the following Items which are for the consumption of this house. Also this municipality has considered provincial treasury mid-year comments when finalising this adjustment budget.

Ref	Description R thousands	Original budget	Adjusted budget	Variance
1	Revenue by source Property rates:	R20 600 000.00	R43 952 000.00	R23 352 000.00
2	Service charges-electricity revenue	R60 851 405.00	R71 252 879.00	R 10 402 000.00
3	Traffic Fines	R4 669 000.00	R2800 000.00	(R1 869 000.00)
4	Refuse charges	R4 672 000.00	R5 310 000.00	R638 000.00
5	Employee related cost Budgeted: R64,997m Expenditure to date: R36,380m	R77 918 000.00	R86 671 000.00	R8 753 000.00
6	Bulk electricity purchase	R45 940 000.00	R56 036 000	R10 096 000.00
7	General expenses	R37 970 000.00	R25 756 000.00	(R12 214 000.00)

KZN266 Ulundi - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) -

Description	Re f	Budget Year 2013/14									Budget Year +1 2014/15	Budget Year +2 2015/16
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands	1	A	3 A1	4 B	5 C	6 D	7 E	8 F	9 G	10 H		
Revenue By Source												
Property rates	2	20,600	-	-	-	-	-	22,496	22,496	43,096	16,637	17,453
Property rates - penalties & collection charges		1,800						(944)	(944)	856	1,895	1,988
Service charges - electricity revenue	2	60,851	-	-	-	-	-	10,402	10,402	71,253	64,077	67,216
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	4,672	-	-	-	-	-	639	639	5,311	4,920	5,161
Service charges - other									-	-		
Rental of facilities and equipment		470						(82)	(82)	388	409	431
Interest earned - external investments		170						10	10	180	190	200
Interest earned - outstanding debtors									-	-		
Dividends received									-	-		
Fines		4,669						(1,869)	(1,869)	2,800	4,212	4,419
Licences and permits		3,000						(453)	(453)	2,547	2,633	2,761
Agency services									-	-		
Transfers recognised - operating		91,573						(1,489)	(1,489)	90,084	94,949	100,076
Other revenue	2	171	-	-	-	-	-	856	856	1,027	179	188
Gains on disposal of PPE									-	-		
Total Revenue (excluding capital transfers and contributions)		187,976	-	-	-	-	-	29,566	29,566	217,542	190,099	199,894
Expenditure By Type	-											
Employee related costs		64,997	-	-	-	-	-	6,847	6,847	71,844	70,291	74,085
Remuneration of councillors		12,921						173	173	13,094	13,881	14,606
Debt impairment								6,500	6,500	6,500		
Depreciation & asset impairment		46,000	-	-	-	-	-	19,967	19,967	65,967	48,484	51,102
Finance charges		300							-	300	316	333

Bulk purchases		45,940	-	-	-	-	-	10,096	10,096	56,036	48,375	50,745
Other materials								235	235	235	34,794	
Contracted services		58,993	-	-	-	-	-	18,747	18,747	77,740	79,144	83,420
Transfers and grants									-	-		
Other expenditure		37,970	-	-	-	-	-	(12,214)	(12,214)	25,756	39,820	41,870
Loss on disposal of PPE									-	-		
Total Expenditure		267,121	-	-	-	-	-	50,351	50,351	317,472	335,106	316,161
Surplus/(Deficit)		(79,145)	-	-	-	-	-	(20,785)	(20,785)	(99,930)	(145,006)	(116,268)
Transfers recognised - capital		35,381						-	-	35,381	34,019	40,853
Contributions									-	-		
Contributed assets									-	-		
Surplus/(Deficit) before taxation		(43,764)	-	-	-	-	-	(20,785)	(20,785)	(64,549)	(110,987)	(75,415)
Taxation									-	-		
Surplus/(Deficit) after taxation		(43,764)	-	-	-	-	-	(20,785)	(20,785)	(64,549)	(110,987)	(75,415)
Attributable to minorities									-	-		
Surplus/(Deficit) attributable to municipality		(43,764)	-	-	-	-	-	(20,785)	(20,785)	(64,549)	(110,987)	(75,415)
Share of surplus/ (deficit) of associate									-	-		
Surplus/ (Deficit) for the year		(43,764)	-	-	-	-	-	(20,785)	(20,785)	(64,549)	(110,987)	(75,415)

Honourable Speaker and Councillors, I wish to confirm further to you that as one of the State Entities we are also being monitored by other structures of National and Provincial Government in terms of the Municipal Finance Management Act. On that note, KZN Provincial Treasury had submitted comments in response to a 2013/2014 Mid-Year Budget Performance Assessment Report and those comments should be taken into consideration when finalizing the Adjustment Budget. Provincial Treasury picked up that certain Revenue items like Property Rates, Rental of facilities, Property Rates Penalties, Traffic Fines and Licences needed to be adjusted either upwards or downwards. Also in the case of Operating Expenditure employee related costs, depreciation and assets impairment, finance charges and other expenditure were also adjusted accordingly in response to Provincial Treasury's comments. Whilst still there Honourable Speaker on behalf of Ulundi

Municipality I would like to extend sincere thanks and appreciation to the MEC for KZN, Provincial Treasury for deploying her Senior Officials to give necessary support specifically to Ulundi Municipality.

In conclusion, Honourable Speaker and Colleagues I wish to mention that after effecting all necessary adjustments in the 2013/14 budget the total budget changed from the original R223 686 979.00 to R252 923 129.00.

With those words I wish to thank all of you for this opportunity. May the Almighty Lord, bless you abundantly.

Ref	Description	Original budget	Adjusted budget	Variance	Reasons
	R thousands				
	Revenue by source				
1	Property rates:	R20 600 000.00	R43 952 000.00	R23 352 000.00	An old valuation roll (2012/2013) was used for 2013/2014 budget, necessary adjustment had to be effected in order to present the reality.
2	Service charges-electricity revenue	R60 851 405.00	R71 252 879.00	R 10 402 000.00	The main cause is faulty electricity meters that were charging at a considerably rate,

Electricity Business Unit
has completed the
project of meter
replacement.

3	Traffic Fines	R4 669 000.00	R2800 000.00	(R1 869 000.00)	Short staff due to vacancies not filled and offenders are not paying in time or not paying at all. Vacancies will be advertised and outstanding fines due by Municipal employees will be recovered from salaries as from January 2014 and notify offenders by using an sums service and in the municipal billing statements.
4	Refuse charges	R4 672 000.00	R5 310 000.00	R638 000.00	Under collection from big consumers like hospitals and some businesses Debt amounting to R105 000 is due to be collected from one hospital and another R200 000 is due to be collected from Babanango business community.

5	Employee related cost Budgeted: R64,997m Expenditure to date: R36,380m	R77 918 000.00	R86 671 000.00	R8 753 000.00	Increase during the year in contributions to medical aids, Pay as you earn, pension fund and creation of a new senior positions
6	Bulk electricity purchase	R45 940 000.00	R56 036 000	R10 096 000.00	The Municipality's projections for 2013/2014 budget were lower than NERSA's tariffs which were approved after finalisation of Municipal budget. Strengthen communication with relevant stakeholders during budgeting and also accommodate variance in Adjustment budget.
7	General expenses	R37 970 000.00	R25 756 000.00	(R12 214 000.00)	Due to the financial crisis that we are currently facing, some expenditure

items have to be reduced
in order to have a
balanced/funded budget.

Capital expenditure

KZN266 Ulundi - Table B5 Adjustments Capital Expenditure Budget by vote and funding -

Description	Ref	Budget Year 2013/14									Budget Year +1 2014/15	Budget Year +2 2015/16
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands		A	5 A1	6 B	7 C	8 D	9 E	10 F	11 G	12 H		
<u>Capital expenditure - Vote</u>	2											
<u>Multi-year expenditure to be adjusted</u>												
Vote 3 - Economic & Enviromental Services		-	-	-	-	-	-	-	-	-	-	-
Vote 4 - Trading Services		-	-	-	-	-	-	-	-	-	-	-
Vote 5 - [NAME OF VOTE 5]		27,381	-	-	-	-	-	-	-	27,381	29,019	30,853
Vote 6 - [NAME OF VOTE 6]		8,000	-	-	-	-	-	-	-	8,000	5,000	10,000
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-	-
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-	-
Capital multi-year expenditure sub-total	3	35,381	-	-	-	-	-	-	-	35,381	34,019	40,853

<u>Single-year expenditure to be adjusted</u>	2												
Vote 3 - Economic & Environmental Services		-	-	-	-	-	-	-	-	-	-	-	-
Vote 4 - Trading Services		-	-	-	-	-	-	-	-	-	-	-	-
Vote 5 - [NAME OF VOTE 5]		27,381	-	-	-	-	-	-	-	27,381	29,019	30,853	
Vote 6 - [NAME OF VOTE 6]		8,000	-	-	-	-	-	-	-	8,000	5,000	10,000	
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-	-	-
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-	-	-
Capital single-year expenditure sub-total		35,381	-	-	-	-	-	-	-	35,381	34,019	40,853	
Total Capital Expenditure - Vote		70,762	-	-	-	-	-	-	-	70,762	68,038	81,706	
<u>Capital Expenditure - Standard</u>													
<i>Governance and administration</i>		-	-	-	-	-	-	-	-	-	-	-	-
Executive and council										-	-		
Budget and treasury office										-	-		
Corporate services										-	-		
<i>Community and public safety</i>		-	-	-	-	-	-	-	-	-	-	-	-
Community and social services										-	-		
Sport and recreation										-	-		
Public safety										-	-		
Housing										-	-		
Health										-	-		
<i>Economic and environmental services</i>		-	-	-	-	-	-	-	-	-	-	-	-
Planning and development										-	-		
Road transport										-	-		
Environmental protection										-	-		
<i>Trading services</i>		-	-	-	-	-	-	-	-	-	-	-	-
Electricity										-	-		

Water									-	-		
Waste water management									-	-		
Waste management									-	-		
<i>Other</i>									-	-		
Total Capital Expenditure - Standard	3	-	-	-	-	-	-	-	-	-	-	-
Funded by:												
National Government									-	-		
Provincial Government									-	-		
District Municipality									-	-		
Other transfers and grants									-	-		
Total Capital transfers recognised	4	-	-	-	-	-	-	-	-	-	-	-
Public contributions & donations									-	-		
Borrowing									-	-		
Internally generated funds									-	-		
Total Capital Funding		-	-	-	-	-	-	-	-	-	-	-

We have been able to accelerate service delivery through grant expenditure as we have been able to spend 58% of the budgeted capital expenditure for the current financial year; this comprises 54% expenditure from DOE & 60% expenditure from MIG. Also this municipality had been able to fully spent the approved roll-over amount of R1.2 million from DOE within the first half of the financial year. The following table shows the amount approved as roll-over from last year and the current expenditure:

KZN266 Ulundi - Supporting Table SC7(2) Monthly Budget Statement - Expenditure against approved rollovers - M06 December

Description	Ref	Budget Year 2013/14				
		Approved Rollover 2012/13	Monthly actual	YearTD actual	YTD variance	YTD variance
R thousands						%
<u>EXPENDITURE</u>						
- <u>Operating expenditure of Approved Roll-overs</u>						
National Government:		-	-	-	-	

					-	
Local Government Equitable Share					-	
Finance Management					-	
Municipal Systems Improvement					-	
					-	
					-	
Other transfers and grants [insert description]					-	
Provincial Government:		-	-	-	-	
Sport and Recreation					-	
Provincialisation of libraries					-	
Community library services					-	
					-	
Other transfers and grants [insert description]					-	
District Municipality:		-	-	-	-	
					-	
Tourism grant					-	
Other grant providers:		-	-	-	-	
					-	
[insert description]					-	
Total operating expenditure of Approved Roll-overs		-	-	-	-	
<u>Capital expenditure of Approved Roll-overs</u>						
National Government:		1,275	-	1,275	-	
Electrification of Households		1,275		1,275	-	
					-	
					-	
					-	
Other capital transfers [insert description]					-	
Provincial Government:		-	-	-	-	
					-	
					-	
District Municipality:		-	-	-	-	
					-	

Other grant providers:		-	-	-	-	
					-	
Total capital expenditure of Approved Roll-overs		1,275	-	1,275	-	
TOTAL EXPENDITURE OF APPROVED ROLL-OVERS		1,275	-	1,275	-	

DATE	REFERENCE	PAYEE	DESCRIPTION	AMOUNT
12/11/2013	C1113144	Zakheni projects	Electrification of households in Esikhwebezane	R800 000.00
14/11/2013	C1113144	Zakheni projects	Electrification of households in Esikhwebezane	R483 109.38
TOTAL				R 1 283 109.38

MUNICIPAL CASH FLOW SITUATION

KZN266 Ulundi - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) -

Description	Ref	Budget Year 2013/14									Budget Year +1 2014/15	Budget Year +2 2015/16
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands		A	3 A1	4 B	5 C	6 D	7 E	8 F	9 G	10 H		

CASH FLOW FROM OPERATING ACTIVITIES												
Receipts												
Ratepayers and other		68,252						(10,977)	(10,977)	57,275	60,368	63,628
Government - operating	1	91,373						(1,489)	(1,489)	89,884	94,738	99,854
Government - capital	1	35,461						(80)	(80)	35,381	34,019	40,853
Interest		170						10	10	180	190	200
Dividends									-	-		
Payments												
Suppliers and employees		(209)						(318,696)	(318,696)	(318,905)	(336,126)	(354,277)
Finance charges		(300)							-	(300)	(316)	(333)
Transfers and Grants	1								-	-		
NET CASH FROM/(USED) OPERATING ACTIVITIES		194,747	-	-	-	-	-	(331,232)	(331,232)	(136,485)	(147,128)	(150,076)
CASH FLOWS FROM INVESTING ACTIVITIES												
Receipts												
Proceeds on disposal of PPE									-	-		
Decrease (Increase) in non-current debtors									-	-		
Decrease (increase) other non-current receivables	-								-	-		
Decrease (increase) in non-current investments									-	-		
Payments												
Capital assets		35,731						(350)	(350)	35,381	37,660	39,694
NET CASH FROM/(USED) INVESTING ACTIVITIES		35,731	-	-	-	-	-	(350)	(350)	35,381	37,660	39,694
CASH FLOWS FROM FINANCING ACTIVITIES												
Receipts												
Short term loans									-	-		
Borrowing long term/refinancing									-	-		
Increase (decrease) in consumer deposits									-	-		
Payments												
Repayment of borrowing									-	-		
NET CASH FROM/(USED) FINANCING ACTIVITIES		-	-	-	-	-	-	-	-	-	-	-
NET INCREASE/ (DECREASE) IN CASH HELD												
Cash/cash equivalents at the year begin:	2	230,478	-	-	-	-	-	(331,582)	(331,582)	(101,104)	(109,467)	(110,382)
		1,672						1,541	1,541	3,213	238,327	477,894

Cash/cash equivalents at the year end:	2	232,150	-	-	-	-	-	(330,041)		(97,891)	128,860	367,513
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The municipal cash flow situation has improved for the past seven months; this is as a result of the following resolutions that were taken by council:

- Conversion of Protection services and Electrical departments into Business units whereby they are responsible to incur expenditure only after raising revenue.

- Correction of billing and electrical infrastructure as a result a back-billing will be effected on businesses

- Freezing of vacant post except the critical ones

- Continuous disconnections

- Close progress monitoring of the Business units by the Cash flow Management Committee, the Executive and Finance Committee, the Internal Audit, the Performance and Audit Committee MPAC as well as Council. We have been able to honour our payments as and when they become due especially our statutory deductions. In case of the Eskom debt, this municipality was able to pay the current year's billing and as for the old debt the two parties are still in the negotiation process as to how this debt will be paid.

Our budget shows a deficit of R64 549 000.00 which is as a result of non-cash items of about R65 000 000.00 which leaves us with a surplus of R1.4 million.

2. COUNCIL RESOLUTIONS

**UMASIPALA
WASOLUNDI**

Private Bag X 17
Ulundi
3838

" The City of Heritage "



EXTRACT

**ULUNDI
MUNICIPALITY**

Tel: 035 874 5100
Fax: 035 870 1164

FROM MINUTES OF THE 2013/2014 SPECIAL COUNCIL MEETING OF THE ULUNDI MUNICIPAL COUNCIL IN ACCORDANCE WITH SECTION 29(1) READ WITH SECTION 18 (2) OF THE LOCAL GOVERNMENT MUNICIPAL STRUCTURES ACT NO 117 OF 1998 HELD IN THE COUNCIL CHAMBER, ULUNDI CIVIC CENTRE AT BA 81, PRINCE MANGOSUTHU STREET, ON TUESDAY, 25 FEBRUARY 2014 AT 12H00

**A1. APPROVAL OF THE MEDIUM TERM REVENUE AND
EXPENDITURE BUDGET ADJUSTMENT FOR 2013/2014**
5/1/1

(A1./2)

RESOLVED:-

1. **THAT** the Council approves the 2013/2014 Adjustment Budget for the financial year 2013/2014 and two outer years 2014/2015 and 2015/2016. The Medium term revenue and expenditure adjustment budget totaling to R252 923 129.00; R266 794 132.00 and R 307 067 854.00 respectively.
2. **THAT** the contents of the revised 2013/2014 SDBIP be noted.

CERTIFIED A TRUE COPY


N.G. ZULU
CORPORATE AND MANAGEMENT SERVICES

ULUNDI
27-02-2014

3. EXECUTIVE SUMMARY

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financial viable and that municipal services are provided sustainably, economically and equitable to all communities.

The municipality's business and service delivery priorities were received as part of this year's planning and budget process. Where appropriate, funds were transferred from low to high priority programmes as to maintain sound financial stewardship. Nice to have items were also eliminated from the budget, the municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of the debt owed by customers. Furthermore the municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of people lead government.

Below is a table showing a consolidated overview of the adjustment budget for 2013/2014:

DETAILS	ORIGINAL BUDGET 2013/2014	ADJUSTED BUDGET 2013/2014
TOTAL OPERATING REVENUE	R223 686 979.00	R252 923 000.00
TOTAL OPERATING EXPENDITURE	R267 121 000.00	R319 205 000.00
(SURPLUS)/DEFICIT FOR THE YEAR	R43 434 021.00	R64 549 000.00
TOTAL CAPITAL EXPENDITURE	R35 961 000.00	R35 381 000.00

4. ADJUSTMENTS BUDGET TABLES

The Adjustment Budget Tables are attached as Annexure “A”.

5. ADJUSTMENTS TO BUDGET ASSUMPTIONS

5.1 Given the constraints on the revenue side, the Council took very tough decisions on the expenditure side. Priority was given to:

- Protecting the poor from the worst impacts of the economic downturn;
- Supporting meaningful local economic development (LED) initiatives that foster micro and small business opportunities and job creation;
- Securing the health of the asset base (especially the Council's revenue generating assets) by increasing spending on repairs and maintenance; and
- Expediting spending on capital projects that are funded by conditional grants.

5.2 In preparing the adjustments budget, the following priorities were taken into account:

- Deliver more and better services in a caring and efficient manner;
- Hold political office bearers and public servants accountable;
- Shift resources to new priorities;
- Move from debate to effective implementation and decisive action; and
- Work in partnership with communities, labour and businesses to achieve our shared objectives.

5.3 The following budget assumptions have a major influence on the budget adjustment:

- The excessive increases in the tariffs of bulk electricity purchases in the next two year's budget are putting pressure on the Council's operating expenditure budget.

- It will take some time for the economic upturn to flow through to increase municipal revenues and better cash flows.
- The revenue stream of this municipality may be under pressure for the next three to four quarters of 2014.
- Also the high cost of moving waste to the regional dump site.

6. ADJUSTMENTS TO BUDGET FUNDING

6.1 Below follows an explanations as to how the adjustment budget is funded:

-Interest earned	R180 000.00
-Rental facilities	R388 000.00
-Service charges	R125 863 129.00
-Fines, licences and permits	R5 347 000.00
-Transfers recognised	R125 465 000.00
-Other direct revenue	R1 027 000.00
TOTAL	R 252 923 129.00

The adjusted capital expenditure is funded as follows:

DESCRIPTION	AMOUNT
Municipal Infrastructure Grant	R 27 381 000.00
Electrification of households	R8 000 000.00
Own funds	R0.00

There are no cash-backed reserves at this stage in order to fund the capital projects.

The future fiscal sustainability of the council is not very positive. The following are contributing factors for this situation:

- The continued dependency on grant funding from the national government
- The continued inability of customers to settle outstanding accounts.

7. ADJUSTMENTS TO ALLOCATION AND GRANT RECEIPTS AND EXPENDITURE

KZN266 Ulundi - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) -

Description	Ref	Budget Year 2013/14							Budget Year +1 2014/15	Budget Year +2 2015/16
		Original Budget	Prior Adjusted	Multi-year capital	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
		A	7 A1	8 B	9 C	10 D	11 E	12 F		
R thousands										
RECEIPTS:	1, 2									
- <u>Operating Transfers and Grants</u>										
National Government:		90,528	-	-	-	(1,489)	(1,489)	89,039	104,953	132,127
Local Government Equitable Share		87,088				(1,489)	(1,489)	85,599	101,357	128,392
Municipal Systems Improvement	3	890				-	-	890	934	967
Finance Management		1,550				-	-	1,550	1,600	1,650
EPWP		1,000				-	-	1,000	1,062	1,118
Other transfers/grants [insert description]						-	-	-		
Provincial Government:		845	-	-	-	150	150	995	891	932
Sport and Recreation						150	150	150		
Community Library Services	4	139				-	-	139	146	153
Provincialisation of Libraries	5	706				-	-	706	745	779
District Municipality:		50	-	-	-	-	-	50	53	56
Tourism grant		50				-	-	50	53	56
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]						-	-	-		
Total Operating Transfers and Grants	6	91,423	-	-	-	(1,339)		90,084	105,897	133,115

						(1,339)				
Capital Transfers and Grants										
National Government:		35,381	-	-	-	-	-	35,381	34,019	40,853
Municipal Infrastructure Grant (MIG)		27,381				-	-	27,381	29,019	30,853
Electrification of Households Infrastructure		8,000				-	-	8,000	5,000	10,000
						-	-	-		
						-	-	-		
Other capital transfers/grants [insert desc]						-	-	-		
Provincial Government:		-	-	-	-	-	-	-	-	-
Other capital transfers/grants [insert description]						-	-	-		
District Municipality:						-	-	-		
Tourism grant		-	-	-	-	-	-	-	-	-
						-	-	-		
Other grant providers:						-	-	-		
Internally generated funds		580	-	-	-	(580)	(580)	-	-	-
Internally generated funds		580				(580)	(580)	-		
						-	-	-		
Total Capital Transfers and Grants	6	35,961	-	-	-	(580)	(580)	35,381	34,019	40,853
TOTAL RECEIPTS OF TRANSFERS & GRANTS		127,384	-	-	-	(1,919)	(1,919)	125,465	139,916	173,968

Our equitable share shows a downwards adjustments as a result of the deduction by National treasury due to falling to apply for a roll over during 2011/2012 financial year. An amount of R1 489 000 was forfeited and also internal generated funds were reduced by R80 000.00 as the municipality currently have reserves that are not cash backed.

KZN266 Ulundi - Supporting Table SC7(1) Monthly Budget Statement - transfers and grant expenditure - M06 December

Description	Ref	2012/13	Budget Year 2013/14							
		Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands										
<u>EXPENDITURE</u>										
-										
<u>Operating expenditure of Transfers and Grants</u>										
National Government:		80,290	89,528	-	28,657	56,612	44,764	11,848	26.5%	89,528
Local Government Equitable Share		77,992	87,088		28,029	55,218	43,544	11,674	26.8%	87,088
Finance Management		1,500	1,550		593	1,332	775	557	71.8%	1,550
Municipal Systems Improvement		799	890		36	62	445	(383)	-86.0%	890
							-	-		-
								-		
Other transfers and grants [insert description]								-		
Provincial Government:		1,383	1,845	-	-	996	923	73	7.9%	1,845
Sport and Recreation			1,000			809	500	309	61.8%	-
Provincialisation of libraries		1,000	139			155	70	86	123.3%	1,000
Community library services			706			31	353	(322)	-91.1%	139
								-		706
Other transfers and grants [insert description]		383						-		
District Municipality:		-	50	-	-	-	-	-		-
								-		
Tourism grant			50					-		
Other grant providers:		-	-	-	-	-	-	-		-
								-		
[insert description]								-		

Total operating expenditure of Transfers and Grants:		81,673	91,423	-	28,657	57,607	45,687	11,921	26.1%	91,373
<u>Capital expenditure of Transfers and Grants</u>										
National Government:		42,924	35,381	-	796	20,813	17,691	3,123	17.7%	35,381
MIG		28,189	27,381		796	16,478	13,691	2,788	20.4%	27,381
		14,735	8,000			4,335	4,000	335	8.4%	8,000
							-	-		
								-		
								-		
Other capital transfers [insert description]								-		
Provincial Government:		-	-	-	-	-	-	-		-
								-		
								-		
District Municipality:		-	-	-	-	-	-	-		-
								-		
								-		
Other grant providers:		-	580	-	-	-	290	(290)	-100.0%	580
			580				290	(290)	-100.0%	580
								-		
Total capital expenditure of Transfers and Grants		42,924	35,961	-	796	20,813	17,981	2,833	15.8%	35,961
TOTAL EXPENDITURE OF TRANSFERS AND GRANTS		124,597	127,384	-	29,454	78,420	63,667	14,753	23.2%	127,334

MIG projects show a 20.4% variance as a result of the projects that are 99% finished like Unit C roads and Mbangayiya roads.

Increase during the year in contributions to medical aids, Pay as you earn, pension fund and creation of a new senior positions

8. ADJUSTMENTS TO COUNCILLOR ALLOWANCES AND EMPLOYEES BENEFITS

KZN266 Ulundi - Supporting Table SB11 Adjustments Budget - councillor and staff benefits -

Summary of remuneration	Ref	Budget Year 2013/14									% change
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	
		A	5 A1	6 B	7 C	8 D	9 E	10 F	11 G	12 H	
R thousands		A	A1	B	C	D	E	F	G	H	
<u>Councillors (Political Office Bearers plus Other)</u>											
Basic Salaries and Wages		7,884						173	173	8,057	2.2%
Pension and UIF Contributions		1,076							-	1,076	0.0%
Medical Aid Contributions									-	-	
Motor Vehicle Allowance		2,751							-	2,751	0.0%
Cellphone Allowance		804							-	804	
Housing Allowances									-	-	
Other benefits and allowances		406							-	406	
Sub Total - Councillors		12,921	-			-		173	173	13,094	1.3%
% increase			(0)							0	
<u>Senior Managers of the Municipality</u>											
Basic Salaries and Wages		3,334						73	73	3,406	2.2%
Pension and UIF Contributions		867						646	646	1,513	74.5%
Medical Aid Contributions									-	-	
Overtime									-	-	
Performance Bonus		275						219	219	494	
Motor Vehicle Allowance		1,200						114	114	1,314	9.5%
Cellphone Allowance		36							-	36	0.0%
Housing Allowances									-	-	
Other benefits and allowances		175						52	52	227	
Payments in lieu of leave									-	-	
Long service awards									-	-	
Post-retirement benefit obligations									-	-	
Sub Total - Senior Managers of Municipality	5	5,887	-	-		-		1,103	1,103	6,990	18.7%
% increase			(0)							0	
<u>Other Municipal Staff</u>											

Basic Salaries and Wages		45,314					2,077	2,077	47,391	4.6%
Pension and UIF Contributions		10,594					661	661	11,255	6.2%
Medical Aid Contributions							1,925	1,925	1,925	#DIV/0!
Overtime							1,380	1,380	1,380	#DIV/0!
Performance Bonus		3,016					(3,016)	(3,016)	(0)	
Motor Vehicle Allowance		32					814	814	847	#####
Cellphone Allowance							(2)	(2)	(2)	#DIV/0!
Housing Allowances		154					138	138	292	
Other benefits and allowances							3,520	3,520	3,520	
Payments in lieu of leave							-	-	-	
Long service awards							300	300	300	#DIV/0!
Post-retirement benefit obligations	5						-	-	-	
Sub Total - Other Municipal Staff		59,110	-	-	-	-	7,796	7,796	66,906	13.2%
% increase										
Total Parent Municipality		77,918	-	-	-	-	9,072	9,072	86,990	11.6%
<u>Board Members of Entities</u>										
Basic Salaries and Wages								-	-	
Pension and UIF Contributions								-	-	
Medical Aid Contributions								-	-	
Overtime								-	-	
Performance Bonus								-	-	
Motor Vehicle Allowance								-	-	
Cellphone Allowance								-	-	
Housing Allowances								-	-	
Other benefits and allowances								-	-	
Board Fees								-	-	
Payments in lieu of leave								-	-	
Long service awards								-	-	
Post-retirement benefit obligations	5							-	-	
Sub Total - Board Members of Entities		-	-	-	-	-	-	-	-	
% increase										
<u>Senior Managers of Entities</u>										
Basic Salaries and Wages								-	-	

Pension and UIF Contributions								-	-	
Medical Aid Contributions								-	-	
Overtime								-	-	
Performance Bonus								-	-	
Motor Vehicle Allowance								-	-	
Cellphone Allowance								-	-	
Housing Allowances								-	-	
Other benefits and allowances								-	-	
Payments in lieu of leave								-	-	
Long service awards								-	-	
Post-retirement benefit obligations	5							-	-	
Sub Total - Senior Managers of Entities		-	-	-	-	-	-	-	-	
% increase										
<u>Other Staff of Entities</u>										
Basic Salaries and Wages								-	-	
Pension and UIF Contributions								-	-	
Medical Aid Contributions								-	-	
Overtime								-	-	
Performance Bonus								-	-	
Motor Vehicle Allowance								-	-	
Cellphone Allowance								-	-	
Housing Allowances								-	-	
Other benefits and allowances								-	-	
Payments in lieu of leave								-	-	
Long service awards								-	-	
Post-retirement benefit obligations	5							-	-	
Sub Total - Other Staff of Entities		-	-	-	-	-	-	-	-	
% increase										
Total Municipal Entities		-	-	-	-	-	-	-	-	
COUNCILLOR ALLOWANCES, EMPLOYEE REMUNERATION & ENTITY REMUNERATION		77,918	-	-	-	-	-	9,072	9,072	86,990
% increase										11.6%
TOTAL MANAGERS AND STAFF		64,997	-	-	-	-	-	8,899	8,899	73,896
										13.7%

Increase during the year in contributions to medical aids, Pay as You Earn, Pension Fund and the creation of a new senior positions had resulted in an increase in the salary budget.

9. ADJUSTMENT TO CAPITAL EXPENDITURE

KZN266 Ulundi - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) -

Description	Ref	Budget Year 2013/14									Budget Year +1 2014/15	Budget Year +2 2015/16
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands		A	5 A1	6 B	7 C	8 D	9 E	10 F	11 G	12 H		
Capital expenditure - Vote												
Multi-year expenditure to be adjusted	2											
Vote 3 - Economic & Environmental Services		-	-	-	-	-	-	-	-	-	-	-
Vote 4 - Trading Services		-	-	-	-	-	-	-	-	-	-	-
Vote 5 - [NAME OF VOTE 5]		27,381	-	-	-	-	-	-	-	27,381	29,019	30,853
Vote 6 - [NAME OF VOTE 6]		8,000	-	-	-	-	-	-	-	8,000	5,000	10,000
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-	-
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-	-
Capital multi-year expenditure sub-total	3	35,381	-	-	-	-	-	-	-	35,381	34,019	40,853
Single-year expenditure to be adjusted	2											
Vote 3 - Economic & Environmental Services		-	-	-	-	-	-	-	-	-	-	-
Vote 4 - Trading Services		-	-	-	-	-	-	-	-	-	-	-
Vote 5 - [NAME OF VOTE 5]		27,381	-	-	-	-	-	-	-	27,381	29,019	30,853
Vote 6 - [NAME OF VOTE 6]		8,000	-	-	-	-	-	-	-	8,000	5,000	10,000
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-	-

Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-	-
Capital single-year expenditure sub-total		35,381	-	-	-	-	-	-	-	35,381	34,019	40,853
Total Capital Expenditure - Vote		70,762	-	-	-	-	-	-	-	70,762	68,038	81,706
<u>Capital Expenditure - Standard</u>												
<i>Governance and administration</i>		-	-	-	-	-	-	-	-	-	-	-
Executive and council									-	-		
Budget and treasury office									-	-		
Corporate services									-	-		
<i>Community and public safety</i>		-	-	-	-	-	-	-	-	-	-	-
Community and social services									-	-		
Sport and recreation									-	-		
Public safety									-	-		
Housing									-	-		
Health									-	-		
<i>Economic and environmental services</i>		27,381	-	-	-	-	-	-	-	27,381	-	-
Planning and development									-	-		
Road transport		27,381						-	-	27,381		
Environmental protection									-	-		
<i>Trading services</i>		8,000	-	-	-	-	-	-	-	8,000	-	-
Electricity		8,000							-	8,000		
Water									-	-		
Waste water management									-	-		
Waste management									-	-		
<i>Other</i>									-	-		
Total Capital Expenditure - Standard	3	35,381	-	-	-	-	-	-	-	35,381	-	-
<u>Funded by:</u>												

National Government		35,381							-	35,381		
Provincial Government									-	-		
District Municipality									-	-		
Other transfers and grants									-	-		
Total Capital transfers recognised	4	35,381	-	-	-	-	-	-	-	35,381	-	-
Public contributions & donations									-	-		
Borrowing									-	-		
Internally generated funds		580					(580)	(580)	(580)	-		
Total Capital Funding		35,961	-	-	-	-	-	(580)	(580)	35,381	-	-

It should be noted that due to financial constraints that the municipality is currently facing it is highly impossible to incur capital expenditure as we do not have reserves that are cash backed. Therefore, Council took a decision to postpone capital expenditure that should be funded internally up until the financial situation improves.

10. LEGISLATION COMPLIANCE STATUS

The 2013/2014 budget adjustment for Ulundi Municipality has been prepared in terms of the Municipal Budget Reporting Regulations and is hereby tabled for Council's approval.

Our municipality has been able to comply with the Municipal Finance Management act requirements through the following:

10.1 Annual Report

The annual report has been compiled in terms of MFMA and National Treasury requirements.

10.2 Internship Programme

This municipality has been able to have the required number of interns (5) and four have completed their competency requirements as they have finished their training with an accredited service provider. The fifth one will be undergoing the training soon as he had been appointed with this month.

10.3 Service Delivery and Budget Implementation Plan (SDBIP)

An adjusted SDBIP has been prepared and is attached as one of the items in this document.

10.4 In-year reporting

Section 71 reports to the mayor on a monthly basis has improved and also submitted to national and provincial treasury on time.

10.5 Annual financial statements

Our AFS were submitted on time to Auditor General as they were sent on the 30 August 2013 for audit purposes.

10.6 Section 72 reports

Also the mid-year budget and performance assessment report was tabled before council on the 24 January 2013 and submitted to National and Provincial treasury on time.

10.7 Budget and Treasury Office

The budget and Treasury Office has been established in accordance with the MFMA.

10.8 Audit Committee and Municipal Public Accounts Committee

An Audit Committee and the Municipal Public Accounts Committee has been established and is fully functional.

11. ADJUSTMENTS TO SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN

DESCRIPTION	ORIGINAL BUDGET	REVISED BUDGET	DIFFERENCE
CORPORATE SERVICES			
Local Economic Development			
	R1 680 000	R2 380 000	R700 000
TECHNICAL SERVICES			
Electrification Project			
Maintenance	R800 000 000	R6 275 681	-R1 724 319
	R 482 895	R 832 895	+R 350 000
COMMUNITY SERVICES			
Burial Assistance			
Refuse Removal	R1 000 000	R2 000 000	+R1 000 000
Sports & Recreation	R5 974 952	R6 801 651	+R 826 699
HIV/AIDS	R1 149 000	R 700 000	-R 448 000
	R1 000 000	R 650 000	-R 350 000
PROTECTION SERVICES			

Animal Pound	R500 000	R800 000	+R300 000
Centralisation of DTLC	R500 000	Nil	-R500 000

FINANCIAL SERVICES

Equitable Share	R87 088 000	R85 599 000	-R1 489 000
Salaries & Allowances	R78 155 038	R84 938 000	R7 020 000

12. PROVINCIAL TREASURY COMMENTS ON MID-YEAR BUDGET & PERFORMANCE ASSESSMENT



treasury

Department
Treasury
PROVINCE OF KWAZULU-NATAL

145 Chief Albert Luthuli Road
Pietermaritzburg 3201
Private Bag X9082
Pietermaritzburg 3200
Tel: 033 897 4200 - Fax: 033 342 4662

**KWAZULU-NATAL PROVINCIAL TREASURY
MUNICIPAL FINANCE**

Ref: 11/6/3/1(KZN266)-2014
Enquiries: Mr M. Ndumo
Date: 21 February 2014

**THE MUNICIPAL MANAGER
ULUNDI MUNICIPALITY
PRIVATE BAG X17
ULUNDI
3838**

Fax: 035 870 1105

Dear Princess S. A. Buthelezi

2013/14 MID-YEAR BUDGET PERFORMANCE ASSESSMENT REPORT

1. Reference is made to your Mid-Year Budget and Performance Assessment Report for the 2013/14 financial year that was submitted to Provincial Treasury in accordance with Section 72(1)(a) and (b) of the Municipal Finance Management Act (MFMA), which states that *the accounting officer of a municipality must by 25 January of each year assess the performance of the municipality during the first half of the financial year and submit a report of such an assessment to the mayor of the municipality, National Treasury and the relevant Provincial Treasury.*
2. An assessment was conducted to verify that your Mid-Year Budget and Performance Assessment Report for 2013/14, as submitted to Provincial Treasury, conforms with the Municipal Budget and Reporting Regulations (MBRR) and provides the relevant information required to inform your Adjustments Budget, refer to attached Annexure A. The analysis was based on the information submitted by your municipality in the C Schedules.
3. Provincial Treasury engaged your municipality on the outcome of the assessment on 17 February 2014, with the intention of informing the municipality's 2013/14 Adjustments Budget.
4. The following key issues were noted and discussed:
Mid-Year Budget and Performance Assessment Report
 - The municipality omitted to include a paragraph on *Debtors Analysis and Allocations and grant receipts and expenditure* in their Mid-Year Budget and Performance Assessment Report, as required by Regulation 28 of the MBRR.
 - The Original budget figures reconcile in all main tables on C Schedule and A Schedule, except for minor discrepancies noted in Tables C1, C3 and C7, and corresponding Tables A1, A3 and A7.

- The figures reported on Section 71 reports for the first six months and Section 72 do not reconcile on all main tables, which is a concern as it raises a question of whether figures submitted by the municipality on a monthly basis to the National Treasury database are credible or not.
- The municipality has provided minimal explanations on Table SC1, however, they have elaborated on the remedial/corrective measures in the Mid-Year Budget and Performance Assessment report.

Operating Revenue

- Ulundi Municipality has generated revenue that is above the Year-to-date budget by more than 100 percent for the following line items, *Property rates* (205 percent) and *Other revenue* (971 percent), which is an indication that the Original budget has been exceeded beyond expected measures, therefore, the municipality will need to investigate the correctness of figures, and if necessary, adjust the budget accordingly.
- The municipality has generated 72 percent and 76 percent above the Year-to-date budget for *Rental of facilities* and *Interest earned-external investments* respectively. The municipality is urged to review and revise the budget accordingly.
- *Property rates-penalties and collection charges* and *Service charges-electricity* generated R428 000 and R23.9 million, which is below the Year-to-date budget by 52 percent and 22 percent respectively.
- The Year-to-date actual for *Fines and Licences and permits* amounted to R1.2 million and R1.1 million, which is below the Year-to-date budget by 50 percent and 24 percent, respectively. The municipality is advised to review these revenue items and adjust accordingly.
- *Service charges-other* has no budget allocation, however, the municipality has reported Year-to-date actual revenue amounting to R389 000.

Operating Expenditure

- *Employee related costs* have been reported with expenditure of R36.4 million, which is 12 percent above the Year-to-date budget. The municipality has stated that the over expenditure is attributable to new employees that have been appointed, however, the budget should have included vacancies that were to be filled within the financial year.
- *Remuneration of councillors* are a fixed monthly cost, which is based on the number of councillors, however the municipality has reported expenditure of R5 million, which is 12 percent below the Year-to-date budget. The municipality must ensure accuracy of figures submitted or they should adjust the budget downwards if they had provided more than the allocation required.
- The Original budget for *Depreciation and asset impairment* is R46 million, however as at the end of the first 6 months, the municipality has spent R65.9 million, which is above the Year-to-date budget by 187 percent. The municipality should investigate if this figure is correct and if so, they are required to revise the budget.
- *Finance charges* reported have low expenditure of R8 000, against an original budget of R300 000, which is below Year-to-date budget by 95 percent.
- There is no budget allocation for *Other materials*, however, the municipality has reported expenditure of R48 000 to date relating to this line item.
- *Other expenditure* is above the Year-to-date budget of R18.9 million by R2.6 million or 14 percent.

- It has been noted that the municipality has cut down on some expenditure items due to recommendations made by the Cash Flow Management Committee. However, the municipality has not generated sufficient revenue to cover the expenditure incurred, as it has operated at a deficit of R59.8 million, as at the end of December 2013. Since the expenditure has been exceeding generated income for all 6 months, the municipality is further advised to reduce on non-essential items when preparing their Adjustments Budget, where they are requested to refer to MFMA Circular No. 66.

Capital Expenditure

- The municipality only has two Capital project allocations, namely; *Road Transport* (R27.4 million) and *Electricity* (R8 million). The municipality reported expenditure of to have spent R16.5 million on *Road Transport*, which is 20 percent above the Year-to-date budget. The municipality did mention in their Mid-Year Budget and Performance Assessment Report that the reason for the high expenditure is a result of projects which are 99 percent complete.
- Ulundi Municipality had provided R580 000 as a source of income under the *Internally generated funds* category, however, Provincial Treasury had suggested that the municipality not allocate this source of funding as they were currently experiencing Cash flow challenges, therefore they were not operating at a surplus. To date, the municipality has not reported any revenue against this line item.

Cash flow

- Due to errors noted in the municipality's 2013/14 Approved budget, Provincial Treasury could not assess whether the budget was funded or not at the stage of providing comments and feedback to the municipality.
- The net available cash position, as per the audited 2012/13 AFS, is a negative amount, as the portion of unspent conditional grants is greater than the Total Cash (Investments and Cash book balance). This is a reflection of the poor cash position which has been noted in the monthly IYM feedback process.
- The Cash coverage ratio resulting from the audited Annual Financial Statements (AFS) is -0.02 months and using the Section 72 submission and Registers, the Cash coverage ratio is 0.1 months, however they are both unsatisfactory as they are below the norm which is 3 months. The municipality should use these ratios as a warning or red flag where they should formulate strategies to improve their net cash position. This could have a negative impact on the liquidity of the municipality, as well as the day-to-day operations.
- The cash flow is also affected by the non-payment of their main Creditor (Eskom) whom they have been communicating with, in order to find a solution to the non-payment.

Debtors

- The population of the *Debtors* age analysis has reflected negative figures, which should not be the case, which makes it difficult to provide a meaningful assessment. The municipality did not report on ageing debtors in October and November 2013.
- The ageing *Debtors* submitted in December 2013 has only reflected amounts under *Other*, where it has been noted that the majority of the *debtors* (72.3 percent or R77 million) appear to be in the *Over 181days-1 Year* category.
- It is evident that the municipality's collection rate is not improving and initiatives should be introduced in order to curtail this challenge and strategically increase collection of outstanding debt.

Creditors

- *Creditors* for month 6 indicate that 85 percent of creditors are in the *Over 181 days-1 Year* category. It has also been noted that the main credit group owed falls under *Bulk Electricity*, relating to the *Eskom* debt, where it accounts for 95 percent of the outstanding creditor's payments.
- This is an indication that the municipality is not complying with Section 65(e) of the MFMA, which states that *all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.*
- As at the end of December 2013, the municipality stated that the outstanding amount due to *Eskom* had accumulated to R29 million.

Performance on Conditional Grants

- The municipality provided sufficient explanations regarding over and under expenditure for the capital grant allocations, however, explanations on the operating grants were not adequately provided.
 - The following operating grant allocations, *Equitable Share*, *Finance Management*, *Expanded Public Works Program* and *Provincialisation of libraries*, were utilized at a rate which is above the Year-to-date budget by 26.8 percent, 71.8 percent, 61.8 percent and 123.3 percent, respectively.
 - The capital grants performance against budgeted allocations was also above the Year-to-date budget. On the *Municipal Infrastructure Grant*, the municipality spent R16.5 million, which is above the Year-to-date budget by 20.4 percent, and on the *Integrated Electrification Program* grant they spent R4.4 million, which is above the Year-to-date budget by 8.4 percent.
 - The following two allocations namely, *Municipal Systems Improvement Grant* and *Community Library Services* grant both have low expenditure against their allocations, where they spent below the Year-to-date budget by 86 percent and 91.1 percent respectively.
 - Ulundi Municipality has spent their approved rollover of R1.3 million fully as at the end of 6 months, for *Electrification of households*.
5. The municipality should ensure that the following are considered, in the preparation of their 2013/14 Adjustments Budget:
- Errors and omissions noted in the 2013/14 Approved Budget, which were communicated in a feedback letter to the municipality dated 09 July 2013, should be corrected in the 2013/14 Adjustments Budget (copy is attached).
 - The municipality should revise its Approved Budget for items where there had been over or under generation of revenue and non-performance on expenditure.
 - The municipality should take note of the provisions of MFMA Sections 28 and 32, as well as the process to be followed when dealing with unauthorised expenditure, as stated in MFMA Circular No. 68.
 - The municipality should ensure that the Adjustments Budget is funded.
 - Virements should only be done in accordance with the municipality's Virements policy.
6. Municipalities are required to table Provincial Treasury's comments to council and forward us a council resolution as well as remedial action on how the errors and concerns raised will be addressed.

7. You are kindly reminded to ensure that the electronic and hard copies of the 2013/14 Adjustments Budget and related documents, completed in the required format, are submitted to National and Provincial Treasuries within 10 working days after they have been tabled to council by the Mayor as required by Regulations 21 and 24 of MBRR.

Yours faithfully



Mr F. Cassimjee

General Manager: Municipal Finance

cc. Mayor
Chief Financial Officer

13. MUNICIPAL MANAGER'S ADJUSTMENT BUDGET QUALITY CERTIFICATE

**UMASIPALA
WASOLUNDI**

Private Bag X17
Ulundi
3838

" The City of Heritage "



**ULUNDI
MUNICIPALITY**

Tel: 035 - 8745100
Fax: 035 - 8745174
E-mail: tmagwaza@ulundi.gov.za

I N.G. Zulu (Aging), Municipal Manager of Ulundi Municipal, hereby certify that

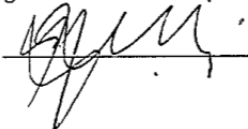
☐ the monthly budget statement

☐ quarterly report on the implementation of the budget and financial state affairs of the municipality

☒ the budget adjustment of 2013/2014 for KZN 266 has been prepared in accordance with the Municipal Finance Management Act and regulations made under that Act.

Print Name: NKOSIYE G. ZULU

Municipal Manager of Ulundi Municipality (KZN266)

Signature: 

**UMASIPALA
WASOLUNDI**

Private Bag X17
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I _____, Municipal Manager of Ulundi Municipal, hereby certify that

- ☐ the monthly budget statement
- ☐ quarterly report on the implementation of the budget and financial state affairs of the municipality
- ☐ the budget adjustment of _____ for _____ has been prepared in accordance with the Municipal Finance Management Act and regulations made under that Act.

Print Name: _____

Municipal Manager of Ulundi Municipality (KZN266)

Signature: _____

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MUNICIPAL ADJUSTMENT BUDGET 2013/2014

AND

SUPPORTING TABLES